



**BB&T Corporation**

---

June 21, 2018

200 West Second Street  
P.O. Box 1250  
Winston-Salem, NC 27102

Ms. Ann E. Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW,  
Washington, DC 20551

**Daryl Bible**  
Chief Financial Officer

Re: Docket No. R-1603 and RIN 7100-AF 02

Dear Ms. Misback:

Branch Banking and Trust Company and BB&T Corporation (collectively referred to as “BB&T”) appreciate the opportunity to comment on the notice of proposed rulemaking (“Proposal”) that would integrate the Board of Governors of the Federal Reserve System’s (“Board”) regulatory capital rule (“capital rule”), the Board’s Comprehensive Capital Analysis and Review (CCAR), and stress test rules, in order to simplify the capital regime applicable to firms subject to the capital plan rule, as published by the Board on April 25, 2018. The Proposal would amend the Board’s capital plan rule, capital rule, and stress testing rules, making amendments to the Stress Testing Policy Statement proposed for public comment on December 15, 2017. Please accept this letter as BB&T’s position regarding the Proposal.

BB&T Corporation (NYSE: “BBT”) is one of the largest regional financial services holding companies in the U.S. with \$220.7 billion in assets and market capitalization of approximately \$40.6 billion as of March 31, 2018. BB&T offers a wide range of traditional financial services including retail and commercial banking, investments, insurance, wealth management, asset management, mortgage, corporate banking, capital markets and specialized lending. Based in Winston-Salem, N.C., BB&T operates more than 2,000 financial centers in 15 states and Washington, D.C. More information about BB&T and its full line of products and services is available at [BBT.com](http://BBT.com).

**Executive Summary**

BB&T supports the Board's efforts to enhance the efficiency of the overall capital regime while continuing to ensure each large bank holding company ("BHC") maintains sufficient quality and quantity of capital. Specifically, BB&T supports the Proposal to:

- Integrate the capital plan rule and CCAR through the creation of the stress capital buffer ("SCB"), which replaces the static 2.5 percent of standardized risk-weighted assets component of a firm's capital conservation buffer.
- Require firms to prefund only four quarters of planned common stock dividends instead of assuming a firm will carry out all nine quarters of its planned capital actions.
- Assume a flat balance sheet under stress rather than the CCAR assumption of balance sheet growth under stress.
- Remove the 30 percent dividend payout ratio used as a threshold for heightened supervisory scrutiny.
- Eliminate the CCAR quantitative objection, provided the Board gives financial institutions greater flexibility to manage their capital plan.

BB&T recommends the Board consider further modifications to the capital plan rule and CCAR guidance.

- Remove the de minimis threshold for capital distribution exceeding planned capital actions.
- Modify the capital plan to permit large BHCs to increase capital distributions provided their capital ratios exceed the projected capital ratios in the annual capital plan, as well as the minimum capital requirements.
- Apply the assumption of a constant balance sheet to both supervisory and company-run stress tests.
- Ensure public disclosure concerning capital actions do not provide sufficient detail or components that would allow the firms projected dividends to be derived.
- Simplify the stress test disclosure to only one set of results based on the proposed capital action assumption (four quarters of common dividends and no share repurchases), eliminating the assumption of DFAST capital actions for FR Y-14A schedules and public disclosures.
- Adopt an appropriate but simple approach for incorporating the Current Expected Credit Loss ("CECL") into the stress test process.
- Explicitly specify the type of capital distributions included in the four quarter average calculation for purposes of the Q3 2019 capital distribution. Explicitly state that the firm may pay the most recent quarterly dividend during the transition quarter so as not to force a dividend cut for that quarter due to averaging the prior four quarters.
- Provide a 60-day comment period for stress test scenarios, given it effectively sets the SCB and resulting capital requirements. Publish the final scenarios by December 31, which will allow firms to better incorporate the supervisory scenarios into their CCAR governance process and have all material necessary to run the stress test at the beginning of the process.
- Change the capital rule to only require G-SIBs to calculate risk-weighted assets using internal ratings-based and advanced approaches method.
- Include the issuance of stock relating to expensed employee compensation in the SCB so the issuance is treated consistently with the employee compensation expense.



**Background Information****Flexibility for Increasing Capital Distributions**

The Proposal does not fully address the implications of the removal of the quantitative objection and does not give financial institutions sufficient flexibility to manage their capital plan. Under the Proposal, large BHCs must continue submitting an annual capital plan. In the capital rule<sup>1</sup> the de minimis threshold below which CCAR firms may provide prior notice, rather than obtain prior approval, for capital distributions not reflected in the firm's capital plan is 0.25 percent of Tier 1 capital. In effect, these two requirements still leave large BHCs subject to limited flexibility under the existing quantitative objection.

BB&T supports the continued requirement of the annual capital plan, but recommends removing the de minimis threshold. Each BHC should be able to increase capital distributions during the capital planning horizon provided it exceeds the minimum capital requirements, including the SCB and the capital ratios included in its annual capital plan. If a large BHC meets both requirements, then it will have sufficient capital as defined by the proposed rule. A large BHC's capital ratios may exceed the projected ratios in its annual capital plan as a result of economic conditions outperforming the supervisory baseline scenario, tax law changes, and/or financial performance otherwise exceeding capital plan projections. A large BHC should have the flexibility to increase capital distributions when it outperforms the projected capital ratios in the supervisory baseline scenario in its annual capital plan. It is not clear why the Board would object to increased capital distributions if there is no quantitative objection. Specifically, banks historically adjust share repurchases, which will not impact the calculation of the SCB, as economic conditions or financial performance changes. The increased flexibility could become more important under the Proposal in order to shift the capital planning horizon out a quarter to the fourth through seventh projected quarters in CCAR because economic conditions and financial performance can change both favorably and unfavorably in the extra quarter between the capital plan submission and capital planning horizon. As such, BB&T recommends modifying the capital plan to permit large BHCs to increase capital distributions provided their capital ratios exceed the projected capital ratios in the annual capital plan. This would be congruent with the expectation firms reduce capital distributions if they are running under their targeted capital ratios. Increased capital flexibility is also consistent with the Board's proposed Large Financial Institution ratings<sup>2</sup> indicating a firm's board of directors is responsible for capital planning in conjunction with strategic and liquidity planning.

If the additional capital flexibility detailed above is not adopted, then BB&T advocates eliminating the annual blackout period from March 15 to June 30, while the Board is conducting CCAR, to further increase flexibility regarding capital distributions. Under the capital plan rule<sup>3</sup>, a large BHC is subject to a blackout period whereby it is not permitted to increase net capital distributions beyond the levels previously approved by the Board.

---

<sup>1</sup> 12 CFR 225.8(g)(2)(i)(D)

<sup>2</sup> <https://www.gpo.gov/fdsys/pkg/FR-2017-08-17/pdf/2017-16736.pdf>

<sup>3</sup> 12 CFR 225.8(g)(2)(iii)(F)

Application of Modified Balance Sheet Growth Assumptions to Company-run Stress Tests

The Proposal modifies the assumption in CCAR effectively requiring that a firm's balance sheet grows under stress to an assumption the firm's balance sheet size remains constant under stress. BB&T supports this modification to the balance sheet growth assumption in CCAR.

The Proposal is clear the modified assumption applies to supervisory stress tests; however, the Proposal is ambiguous on whether this assumption applies to company-run stress tests. Balance sheet assumptions currently vary widely across supervisory and company-run stress tests. Supervisory stress test results have historically grown the balance sheet while company-run stress test results have decreased the size of the balance sheet. The proposal of a constant balance sheet creates more comparable results without assuming significant restriction in the availability of credit. BB&T recommends the regulatory agencies apply the assumption of constant balance sheet size to both supervisory and company-run stress tests to ensure comparability of stress test results across the industry.

In addition, the Proposal is not clear on how the modified balance sheet growth assumption will be applied to specific balance sheet items. For example, it is ambiguous whether the balance sheet mix can change while the balance sheet size remains constant. Additionally, the treatment of reserves, such as the allowance for loan and lease losses, is also unclear. BB&T supports the simpler approach of assuming the balance sheet size remains constant. Additional transparency regarding how the supervisory stress test will reflect this assumption and additional guidance regarding expectations for firms' balance sheet assumptions in the company-run stress test should be provided.

Public Disclosure for the Stress Test Results and Buffer Requirement

Under the Proposal, the Board would continue to provide CCAR firms with the results of their supervisory stress tests by June 30, simultaneously disclosing publicly each CCAR firm's SCB requirements, as well as the results of any applicable qualitative review. The Proposal needs clarity to ensure appropriate specificity related to capital distributions is made public. The supervisory results' disclosure should remain at a high level so it does not telegraph to the market the firm's four-quarters planned capital distributions.

Under the current enhanced prudential standards, firms must disclose stress test results under Dodd-Frank Act Stress Test (DFAST) capital actions. The Board then discloses stress test results with both DFAST and planned capital actions. The proposed SCB removes the assumption of planned capital actions in all nine quarters of the stress test. However, the Proposal does not clarify the capital assumptions for public disclosures of stress test results. BB&T recommends the Board simplifies the stress test disclosures to only one set of results based on the proposed capital action assumption (four quarters of common dividends and no share repurchases), eliminating the assumption of DFAST capital actions for FR Y-14A schedules and public disclosures.

Incorporation of CECL into the Stress Test Process

There is currently no specific CCAR guidance on how to calculate the allowance for loan and lease losses ("ALLL") post-CECL implementation. The proposed SCB is largely impacted by provision expense, which is the function of credit losses and ALLL. Therefore, the implementation of CECL could have a significant impact on the proposed SCB. The stress test models firms built for CCAR



are expected loss models. Thus, the forecast of losses are already consistent with a CECL approach. The Board should provide simple industry direction to ensure uniform implementation of CECL into CCAR.

The process of incorporating a CECL regime into stress testing that mimics actual GAAP allowance procedures will be unwieldy. At each quarter during the stress test the full complement of models would have to be run and either use perfect foresight (because the scenario is known) which will front load all losses, or ignore knowledge of the future and predict an allowance for each of the nine quarters which will require subjective assumptions.

The current CCAR methodologies used by the CCAR banks only requires modest modifications to be consistent with the CECL reserving methodology.

- The incorporation of CECL into CCAR must strike an appropriate balance between operational simplicity, transparency and the avoidance of unintended consequences.
- Current CCAR models are expected loss models. In fact, most banks are using their CCAR models for CECL with modest modification (such as taking out new volume assumptions).
- CCAR should use forecasted losses, i.e. output from existing stress test models, to forecast provision, after the implementation of CECL.
  - CCAR models create forecasts of future losses that are consistent with a given stress scenario.
  - The stressed ALLL should equal the future net charge-offs, observed within the bank's reasonable and supportable period used for CECL.
  - Because CECL is static pools and CCAR stresses the beginning balance sheet, the only real issue for CECL in stress testing is new loan originations over the 9-quarter horizon. The current expected loss CCAR models account for new loan originations, which addresses this issue.
- Executing CECL estimates quarterly as the stress scenarios unfold within CCAR will be unwieldy and does not provide incremental value to CCAR's principle objective of capital stress testing.
- A credible CECL estimate can be achieved by allowing banks to use their existing suite of CCAR models "as is" and stating that the ending reserve must cover a year of forward looking losses. Given the CCAR scenario incorporates a severe stress, future estimates under CECL at the end of the nine quarter stress test horizon should be at baseline levels for the foreseeable future.

The current process banks use is based on expected losses and recognizes losses in a CECL-like calculation. By stating the ending reserve must cover a specified period of losses past the nine quarters, the challenge of knowing the scenario is eliminated and the consistency and integrity of the process is maintained.

If the recommendation above is not adopted (which would eliminate this concern), the potential change in projected stressed losses under a CECL framework has the potential to front load all losses and the SCB would be based on this lowest quarter. In this case BB&T recommends the SCB be based on the ending stressed capital ratio, instead of the minimum stressed capital ratio.

Definition of the Calculation for Capital Distributions Permitted in the Third Quarter of 2019

To provide a transition period between the 2018 CCAR cycle and the first SCB requirement period, the Proposal would authorize firms to make capital distributions that do not exceed the four-quarter average of capital distributions over the prior four quarters. This Proposal is ambiguous regarding whether firms may increase common dividends provided the total capital distributions do not exceed the average of the prior four quarters. The Proposal was publicly announced after the submission of capital plans in CCAR 2018. BB&T recommends the Board clarify that firms have discretion regarding the composition of capital distributions provided the total capital distributions do not exceed the four-quarter average of capital distribution over the prior four quarters. If cash dividends are a separate calculated average, then BB&T recommends the Board explicitly state the firm may pay the most recent quarterly dividend during the transition quarter so as not to force a dividend cut for that quarter due to averaging.

Comment Period for Stress Test Scenarios

The severity of supervisory stress scenarios will directly impact the SCB and resulting capital requirements. The stress test scenarios should be subject to public comment because the scenarios effectively set the capital requirements. The Board's scenario design framework should not require the unemployment rate to reach at least ten percent when no post-World War II recession has experienced an increase in unemployment rate larger than five percent. The Board's Policy Statement on Scenarios<sup>4</sup> does not address severity or timing of changes in most macroeconomic variables in the supervisory scenarios. BB&T recommends the Board subjects the scenarios to a 60-day comment period and the Board publish the final scenarios by December 31, so firms have all material for CCAR at the start of the process and can better incorporate the Federal Reserve scenarios into their governance processes.

Advanced Approaches Method to Calculating Risk-Weighted Assets and Capital Ratios

The Proposal sets the standardized approach capital conservation buffer using the stress test results, but it sets the advanced approaches capital conservation buffer equal to a fixed 2.5 percent of risk-weighted assets. In doing so, it makes the advanced approaches capital framework less relevant for most large BHCs. As of March 31, 2018, only G-SIBs set their capital conservation buffer using advanced approaches capital ratios. As stated in former Governor Tarullo's speech on *Rethinking the Aims of Prudential Regulation*, "The supervisory stress tests developed by the Federal Reserve over the past five years provide a much better risk-sensitive basis for setting minimum capital requirements" than the advanced approach.<sup>5</sup> The SCB, which is based on the supervisory stress tests, is more effective at setting risk-based minimum capital requirements than the advanced approaches for most institutions. BB&T recommends the Board change the capital rule to only require G-SIBs to calculate risk-weighted assets using the advanced approaches method.

Treatment of Employee Compensation Stock Issuances and Expenses

The Proposal would exclude the issuance of common or preferred stock relating to expensed employee compensation. The Proposal could be interpreted to exclude from the SCB future issuances of common stock related to employee compensation while still including the employee compensation expense. The employee compensation expense and related stock issuance have an offsetting impact to capital through the vesting or exercise of the compensation award. BB&T

---

<sup>4</sup> 12 CFR 252, Appendix A

<sup>5</sup> <https://www.federalreserve.gov/newsevents/speech/tarullo20140508a.htm>



BB&T

Docket No. R-1603 and RIN 7100-AF 02

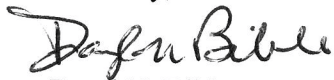
recommends the capital rule include the issuance of stock relating to expensed employee compensation in the SCB so the issuance is treated consistently with the employee compensation expense.

**Conclusion**

In closing, BB&T supports the simplification of the capital rules. However, the current proposal would benefit from further clarification. The suggestions offered above would more clearly and substantially meet the goal of a streamlined and efficient capital framework.

BB&T appreciates the opportunity to provide its comments to the Board.

Sincerely,

A handwritten signature in black ink, appearing to read "Daryl N. Bible". The signature is fluid and cursive, with the first name "Daryl" and last name "Bible" clearly distinguishable.

Daryl N. Bible  
Chief Financial Officer